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Annual Report
1980

SHIPBUILDERS COUNCIL OF AMERICA

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SHIPBUILDERS COUNCIL OF AMERICA • 600 NEW HAMPSHIRE AVENUE N.W., WASHINGTON, D.C. 20037 • 202/338-7722

FOREWORD

Throughout 1980, the issues of how large the U.S. Navy should be . . . how large the U.S. flag merchant feet should be . . . how large a shipyard base the United States should have . . . how long the next military conflict involving the United States might last . . . and many others of a national security, economic and social nature were debated inconclusively.

Time-proven justifications for a shipping and shipbuilding capability under U.S. sovereignty were challenged with unmistakable negative overtones. Also, deficiencies in the Nation's sealift capability to neutralize any challenge to national interests became dramatically apparent.

The level of rhetoric and debate was marked by many uninformed perceptions and much misinformation. Whatever the circumstances, the development of a truly dynamic industrial strategy to improve the quality of the country's naval, shipping, shipbuilding and support resources was effectively frustrated. The five-year naval shipbuilding program was indeed increased early in the year with much fanfare as Middle East problems intensified, but then quietly decreased late in the year. And, an effort to deal with the realities of international competition through reorientation of maritime policies collapsed amid a welter of controversy and confusion.

From the viewpoint of the shipyard industry of the United States, 1980 was hardly a milestone of stability. Production levels in some yards were high; others were aggressively seeking new work. Profits were spotty.

Increasingly faced with the reflex effects of a world environment dominated by government-supported, government-owned or extraordinarily subsidized facilities, U.S. shipbuilders experienced a significant decline in newbuilding contracts. The pace of new orders was slower than in 1979, and this trend is expected to extend over the next several years. Near-term prospects remained woefully uncertain, and total employment in that sector of the industry composing the recognized shipbuilding mobilization base started downward. Moreover, the economics of shipbuilding abroad continued to be contorted by below-cost pricing practices.

But, as has been written, the evolution of change is constant. The change from the lackluster interest of the Carter Administration in shaping an effective shipbuilding industrial strategy to the expectant goals of the Reagan Administration has prompted a new spirit of optimism.

President Ronald Reagan, in his campaign statements, was forthright with respect to his plans to "revitalize and reinvigorate" the U.S. shipbuilding industry:

- "America's control of the seas in the face of any challenge" is to be demonstrated
- "A 600-ship Navy composed of U.S.-built ships" is to be developed "as quickly as the budget would permit"
- "A comprehensive national maritime policy" pointed toward "a greater market share" of U.S. trade for U.S.-flag, U.S.-built merchant ships is to be developed
- "A merchant marine consistent with our economic, trade and national security needs" is to be developed
- Preservation of "our vital shipbuilding mobilization" base is to be ensured
- "A phased-in effort to restore international competitiveness of U.S. shipbuilding through tax incentives, technology advances and improved productivity" is to be developed
- The integrity of the Jones Act which restricts U.S. domestic waterborne trades to U.S.-flag, U.S.-built ships is to be safeguarded
- A change in excessive regulatory requirements which lead to shipbuilding costs greater than those abroad is also implied

By these words, President Reagan's vision of the future coincides with that of the shipbuilding industry, but one must recognize that vision can sometimes be clouded by political stratagems.

Hope springs eternal nevertheless, as the Shipbuilders Council of America observes its 50th Anniversary.

Edwin M. Hood
President

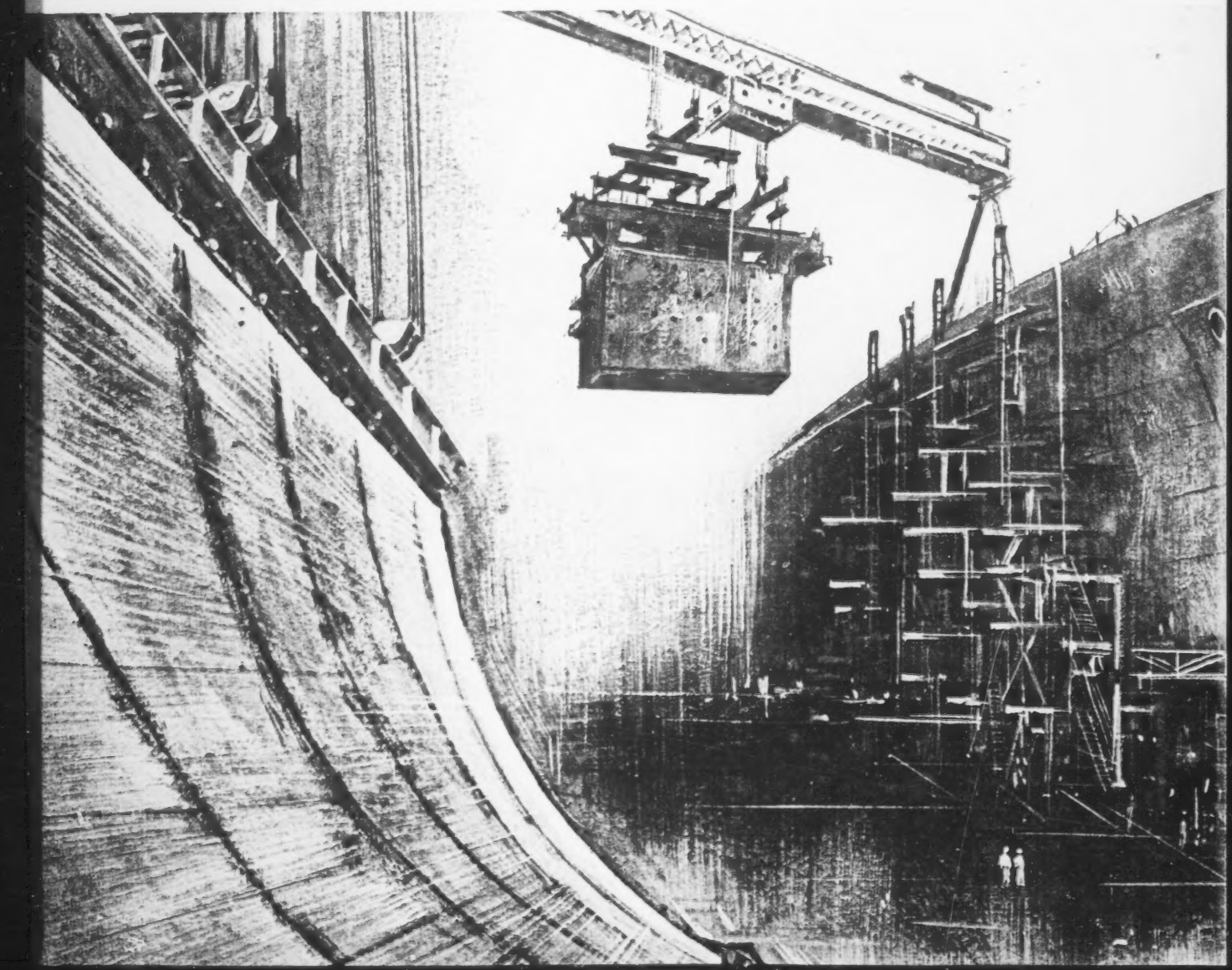
March 11, 1981

OVERVIEW

For the U.S. shipbuilding industry, the psychology of hope went full circle in 1980. Starting with the optimism of Congressional enactment of comprehensive "omnibus" maritime legislation in conjunction with an accelerated naval shipbuilding program and ending with the optimism of a more assertive leadership on the part of a newly-elected President, the period in between was marked by a mixture of intense activity, confusing commotion and much talk but little positive effect.

This convolution must be viewed against the background of recent events. The U.S. commercial and naval fleets have decreased. The U.S. Navy is stretched paperthin and is now at its lowest level since before World War II. The volume of cargoes carried by U.S.-flag ships has declined to an abysmal level. The number of merchant shipbuilding contracts has dropped. The naval shipbuilding program has been generally down. The industrial support base for ship construction has diminished. There has been no coherent policy to assure the uninterrupted movement of critical imports without which the U.S. military and industrial structure could not endure.

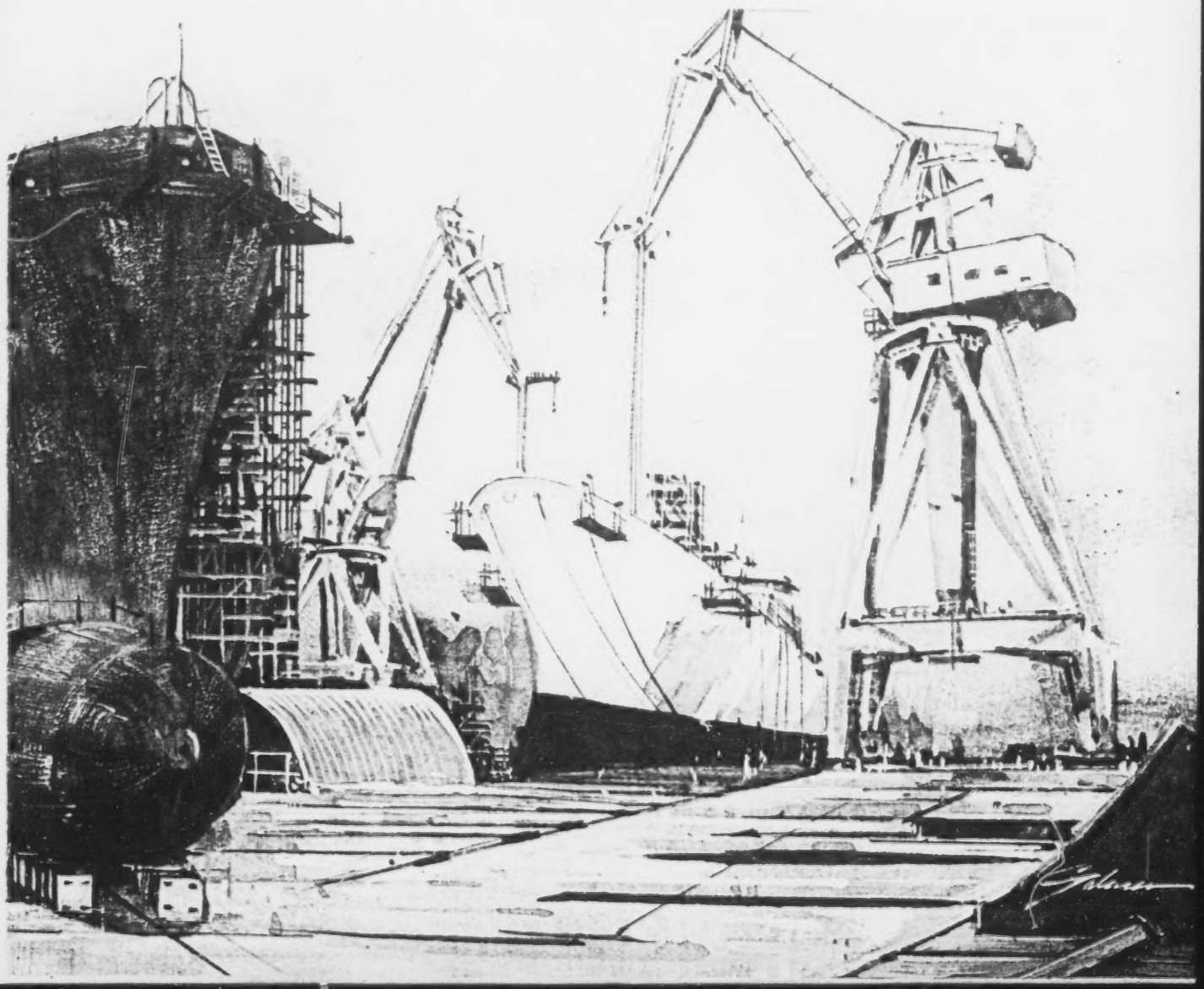
Alarms have been sounded repeatedly. The dismal statistics have been recited endlessly. As



in other recent years, there was no visible high level recognition of the Nation's endangered national security. Assurance of an adequacy of ships, shipping and shipyard resources under U.S. sovereignty to serve essential national interests suffered from unresponsive leadership and adverse economic conditions.

Compared to 1972 and 1973 when new contracts for 48 and 43 merchant ships of 1,000 gross tons and over, respectively, were placed with U.S. shipbuilders, only seven vessels — four tankers, two tuna purseiners and one hopper dredge — were ordered in 1980. There were no construction-differential subsidy (CDS) contracts, though several vessel conversion projects qualified for CDS funds. Provisional contracts for one coal carrying vessel and six liquefied natural gas (LNG) carriers were awarded. Commencement of construction of the LNG vessels must await decision by Federal regulatory agencies on import licenses and regassification site location.

As of December 31, 1980, the orderbook for merchant shipbuilding totaled 49 ships, with an approximate value of $2.3 billion, being constructed by 13 U.S. shipbuilders (compared to 15 at the end of 1979). Only 17 of these vessels will



remain to be delivered after the end of 1981.

With regard to naval shipbuilding, commitments were made in 1980 for the construction of six guided missile frigates (FFG), one guided missile cruiser (CG), one nuclear-powered aircraft carrier (CVN), and three ocean surveillance ships (T-AGOS) in 1980. Contracts for several submarines were still under negotiation at year-end.

The value of the backlog of 91 Navy vessels on order at the close of 1980 is estimated at $9.0 billion and deliveries will extend through 1987. Eleven shipyards (compared to ten at the end of 1979) hold these contracts, one of which is also building four U.S. Coast Guard cutters (WMEC).

New orders at an annual rate of seven merchant ships and 11 naval vessels will obviously not utilize the full capabilities of the shipbuilding industry of the United States. As a consequence, some 30,000 skilled shipyard workers in those yards which compose the so-called shipbuilding mobilization base face the uneasy prospect of unemployment over the next several years with another 90,000 in supplier activities similarly affected. Conversion of existing vessels and construction of non-self-propelled barges for coastwise service in addition to non-ship work could moderate this forecast, but not substantially.

This downward trend has been compounded by expedient actions of the Department of Defense in planning to acquire 11 commercial-type, foreign-built vessels to fill ship voids in the Nation's sealift forces which should have been ordered from domestic shipbuilders three or more years ago. It should be noted that these 11 vessels are greater than the total number of definite contracts (seven

(in millions of dollars except as noted)

ITEM	1974	1975	1976	1977	1978[1]	1979[1]	1980[1]	1981[1]
Industry[2]								
Value of work done[4]	4,825	5,615	5,896	6,495	6,909	7,549	8,105	8,597
Total Employment (thousands)	162.2	166.9	166.3	176.4	172.0	171.6	169.4	166.4
Production Workers (thousands)	129.0	133.4	132.1	139.9	136.7	136.4	134.7	132.3
Value added	2,547	2,923	3,287	3,825	3,848	4,205	4,514	4,789
Product[3]								
Value of work done total	4,712	5,513	5,833	6,270	6,701	7,323	7,781	8,253
Non-propelled new ships	460	643	645	491	520	665	710	828
Self-propelled new military ships	1,714	1,768	1,957	2,212	2,353	2,571	2,760	2,716
Self-propelled new non-military ships	1,290	1,806	1,825	1,917	2,039	2,228	3,390	2,456
Repair of military ships	533	554	644	718	915	944	962	1,248
Repair of non-military ships	713	688	715	789	829	870	914	960
Shipbuilding and repair, n.s.k.	2	54	47	143	45	45	45	45

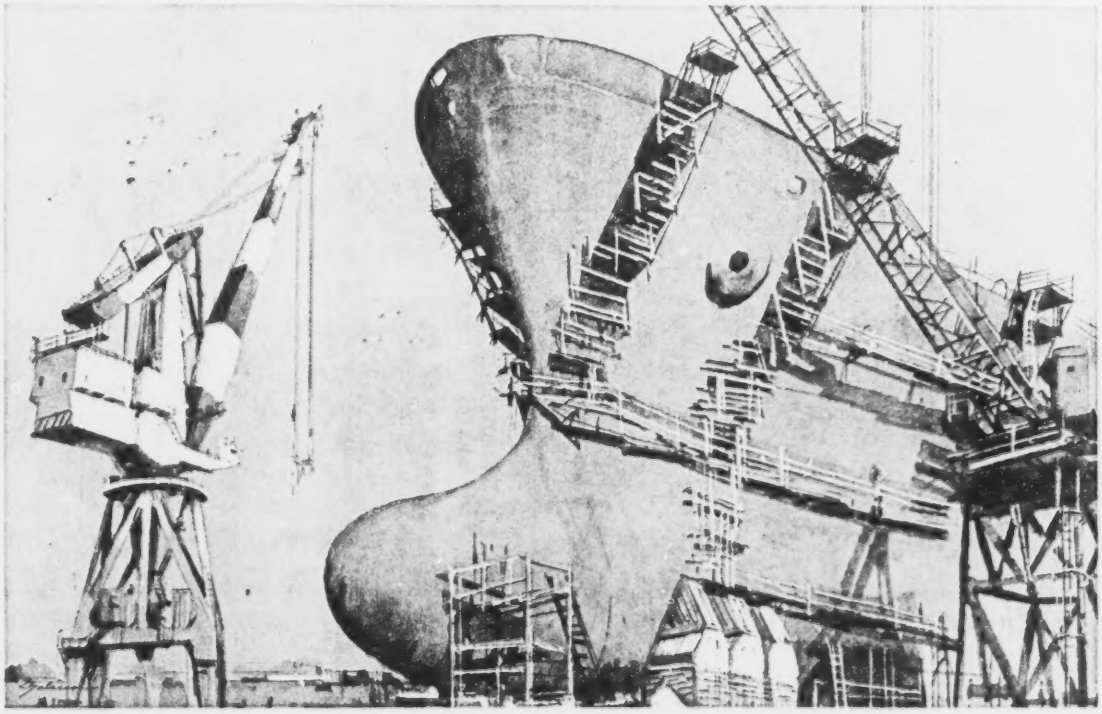
[1] Estimated by Maritime Administration and Shipbuilders Council of America
[2] Includes value of all products and services sold by the shipbuilding and repair industry
[3] Includes value of work done on ships only
n.s.k. — not specified by kind
Source: Bureau of Census, Bureau of Labor Statistics, Maritime Administration, Shipbuilders Council of America

ships) signed by U.S. builders in 1980: an incredible situation, more so because of the role of government.

A loss of 80 million man-hours of employment for the U.S. shipyard labor force takes place while the public treasury is paying millions of dollars in adjustment assistance to U.S. workers displaced by reason of low-cost foreign imports. With one hand, the government purchases foreign-built ships, while with the other hand, it bestows generous unemployment benefits to U.S. shipyard workers who should have built the ships in the first place.

The orderbook for offshore drilling rigs presents a much brighter picture. With 72 rigs on order at year-end with 11 U.S. builders (compared to six at the end of 1979), contracts for 53 were placed in 1980. Valued at about $2.4 billion, deliveries extend into 1984. Worldwide, competition for jackup and semisubmersible rigs intensified during the year as offshore oil and gas fields expanded. In like manner, the demand for new offshore petroleum service vessels has expanded: more than 200 of these supply boats were reportedly delivered in 1980, and an equal number, valued at $2 million each, were on order at year-end.

Also on the plus side of the shipyard ledger, the demand for inland waterway barges as well as for commercial shiprepairing services has been strong throughout the year. The dollar value of ship repair work for 1980, both naval and commercial, is estimated at nearly $2.5 billion. The number of naval ships available for overhaul in private yards dipped toward the end of the year, and recovery is not anticipated until late 1981.



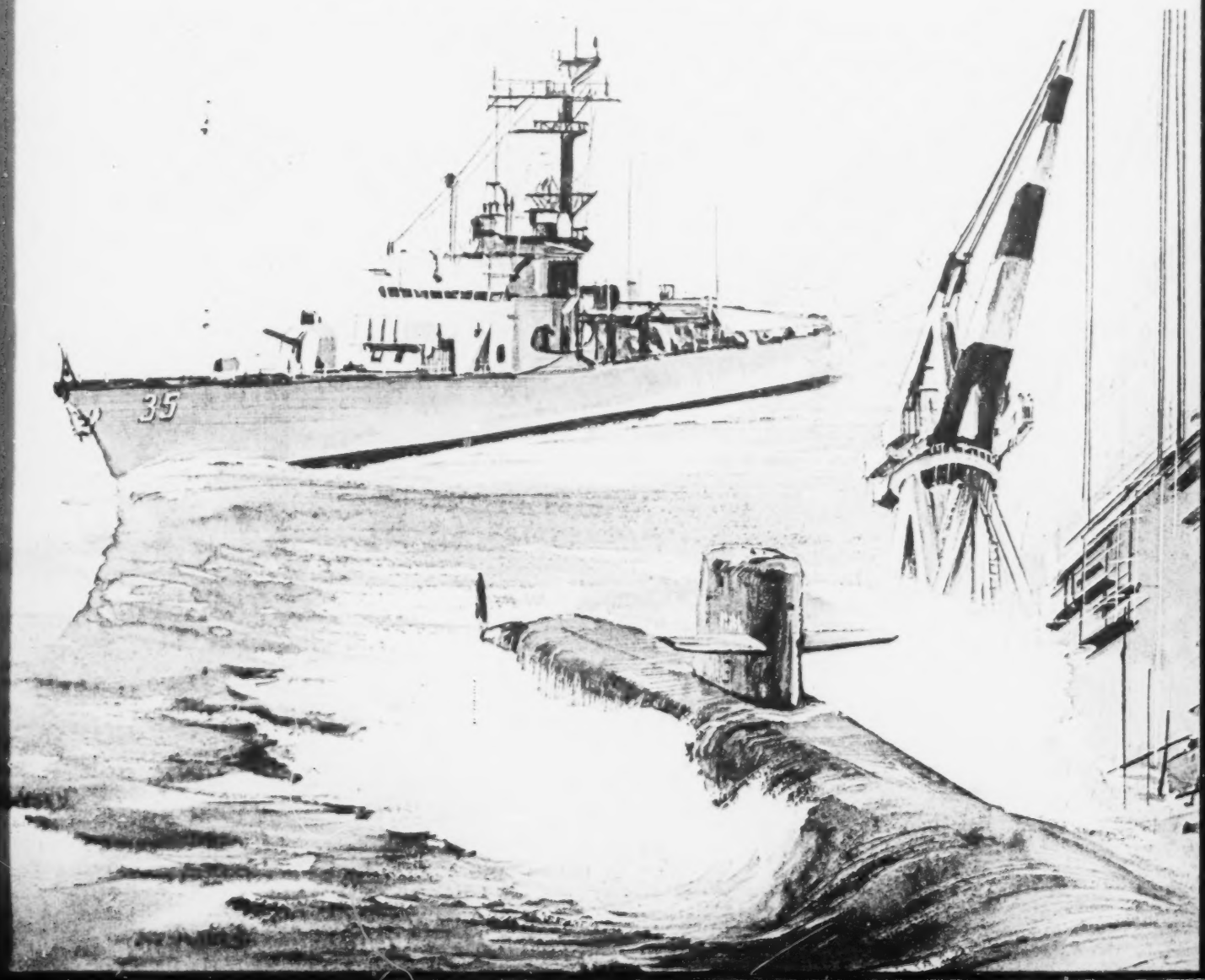
NAVAL SHIPBUILDING

"Let our position be absolutely clear: an attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America and such an assault will be repelled by any means necessary, including military force."

Bravado or polemic, this statement by President Carter, in early 1980, drew sharp attention to the questionable adequacy of U.S. naval and sealift resources as well as to the spreading competition of the U.S.S.R. for sea control. While the Secretary of Defense vowed that "only the United States can offset direct military power" in the Middle East, the thin margin of safety — some say the margin of strategic superiority — is fast slipping to the Soviet Union by default.

The assorted naval shipbuilding programs of recent years have not produced the requisite number of ships necessary to maintain U.S. naval superiority in the present decade. The Joint Chiefs of Staff see a national security requirement for a Navy of 770 active ships exclusive of naval reserve vessels. In comparison, the Carter Administration predicated its shipbuilding planning on a fleet of 550 ships, both active and reserve, by the early 1980's. This legerdemain with numbers can be perplexing. President Reagan, in his 1980 campaign, called for development of "a 600-ship Navy composed of U.S.-built ships as quickly as the budget would permit," but he made no distinction between active and reserve vessels.

From FY '70 through FY '77, the Congress cut



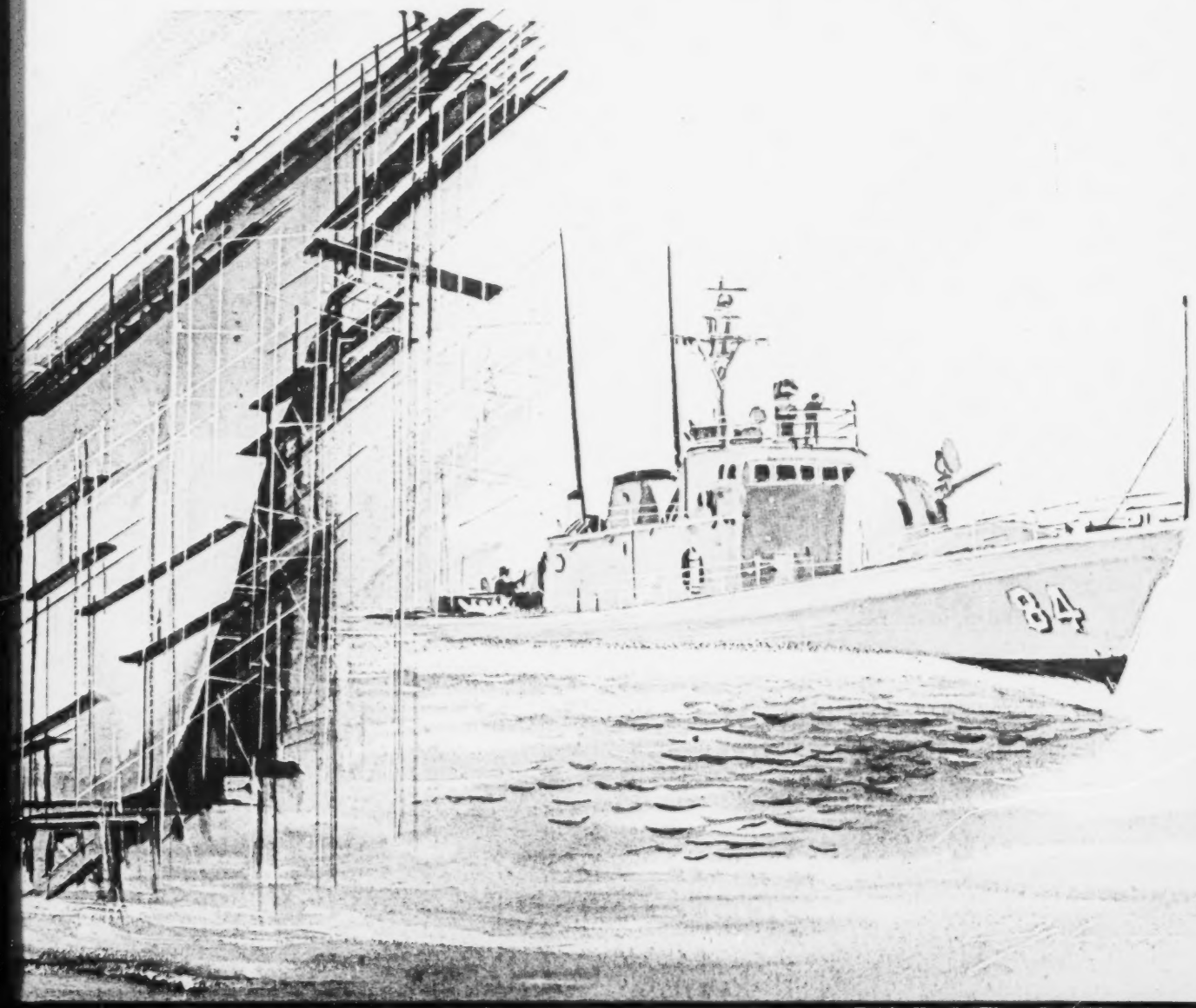
43 naval ships from budgets submitted by Presidents Nixon and Ford. In the FY '77-FY '80 span, President Carter requested funds for only 15 ships per year, enough to sustain only a 400-ship fleet.

The current five-year naval shipbuilding program of 97 ships plus the current backlog of 91 vessels will enable the active fleet to increase from the present total of 456 ships to 492 by FY '84. Thereafter, according to defense analysts, the same fleet will drop to about 400 active ships with a critical decrease in combatant vessels.

If the United States is to possess the naval capacity to neutralize any "assault" on the Nation's vital interests as President Carter put it—or, if the United States is to demonstrate "America's control of the seas in the face of any challenge," as President Reagan has put it, a larger Navy and an expanded naval ship construction effort will obviously be required.

Knowledgeable groups have endeavored to estimate the dimension of a five-year naval shipbuilding plan which will provide reasonable surety for the country. All are greater in numbers than that put forward by the Carter Administration.

A former Secretary of the Navy and the President of The Navy League of the United States joined in arguing for a five-year program of 155 newbuildings and five conversions to achieve a 550-ship naval fleet by 1985. The Committee on the Present Danger, composed of former national



security officials, proposed a six-year shipbuilding program of 224 vessels to enable a 650-ship three-ocean Navy fleet plus a permanent presence in the Caribbean Sea.

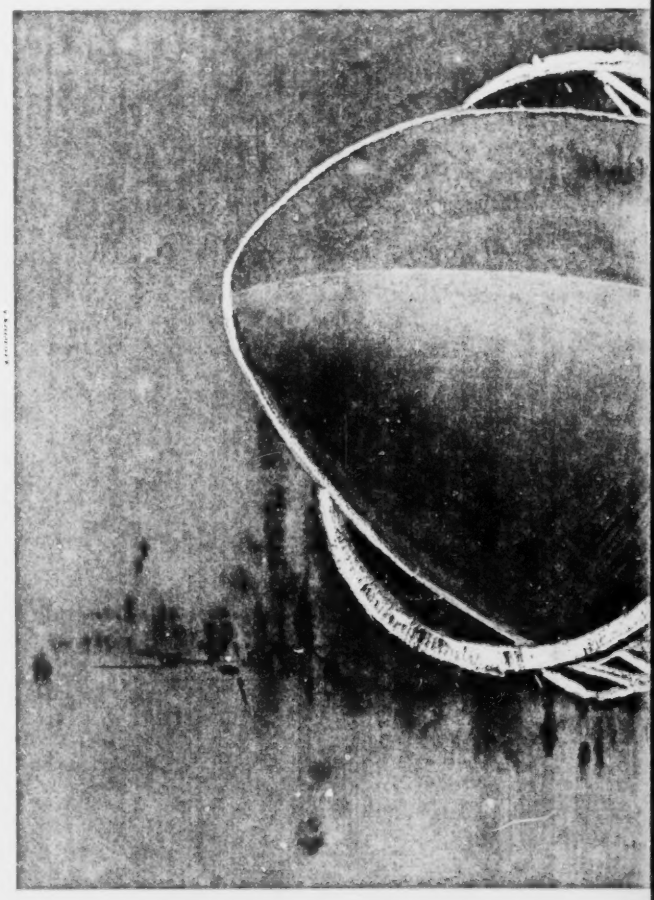
A bi-partisan group of 30 Capitol Hill staff members who work primarily in areas involving national security and foreign policy warned: "Ten years of Congressional lethargy and three years of open anti-military hostility in the Carter Administration are going to prove costly to Americans for many years to come and regardless of specific corrective actions." It recommended a five-year 158 Navy ship construction program (plus seven conversions) "to return America to a position of military strength capable of sustaining independent diplomatic or military action and unviolated national sovereignty."

With indications late in the year that the final Carter Administration FY '82 Budget would reduce the latest official five-year naval shipbuilding plan below the 97 ship level associated with the FY '81 Budget, the American Enterprise Institute for Public Policy, based in the Nation's Capital, proposed a 1982-1986 ship construction program of 135 ships to remedy current problems of "maintain(ing) a three ocean commitment with a one ocean Navy." Almost simultaneously, the Heritage Foundation, another public policy research institute, also headquartered in Washington, DC, called for a naval building program of 30 ships per year at a cost of $11 billion annually (in FY '81 dollars).

These proposals would involve construction ranging between 27 and 37 Navy ships per year, compared with an average of 15 ships ordered in the 1970 decade. To reach an active fleet of 600-ships by the mid-1990's, as President Reagan stipulated during the 1980 campaign, would require new contracts at the rate of 25 to 30 vessels per year and would engage, not fully, the services of some 15 shipyards as opposed to just 11 yards currently involved. With a lead time of three to seven years to deliver sophisticated warships, further vacillation can only be at national peril.

In 1980, there were also varied views with respect to the Nation's sealift readiness. The Iranian crisis and the subsequent increased tempo of Indian Ocean operations gave rise to the opportunistic acquisition of ships for the Military Sealift Command to compensate for past shipbuilding neglect. Regrettably, the present U.S.-built inventory is limited and negotiations proceed for the purchase of a British combat stores ship and eight foreign-built containerships for ultimate conversion to Fast Logistics Ships. In addition, long term charters are being offered for foreign-built roll-on/roll-off (RO/RO) ships.

In the longer view, the newly-created Rapid Deployment Force, composed of existing Army, Navy, Air Force and Marine units to rush to distant trouble spots in the Persian Gulf or elsewhere to defend U.S. vital interests, envisions conversion of six existing U.S.-built vessels with RO/RO capabilities plus construction of six Maritime Prepositioning Ships (T-AKX). However, in

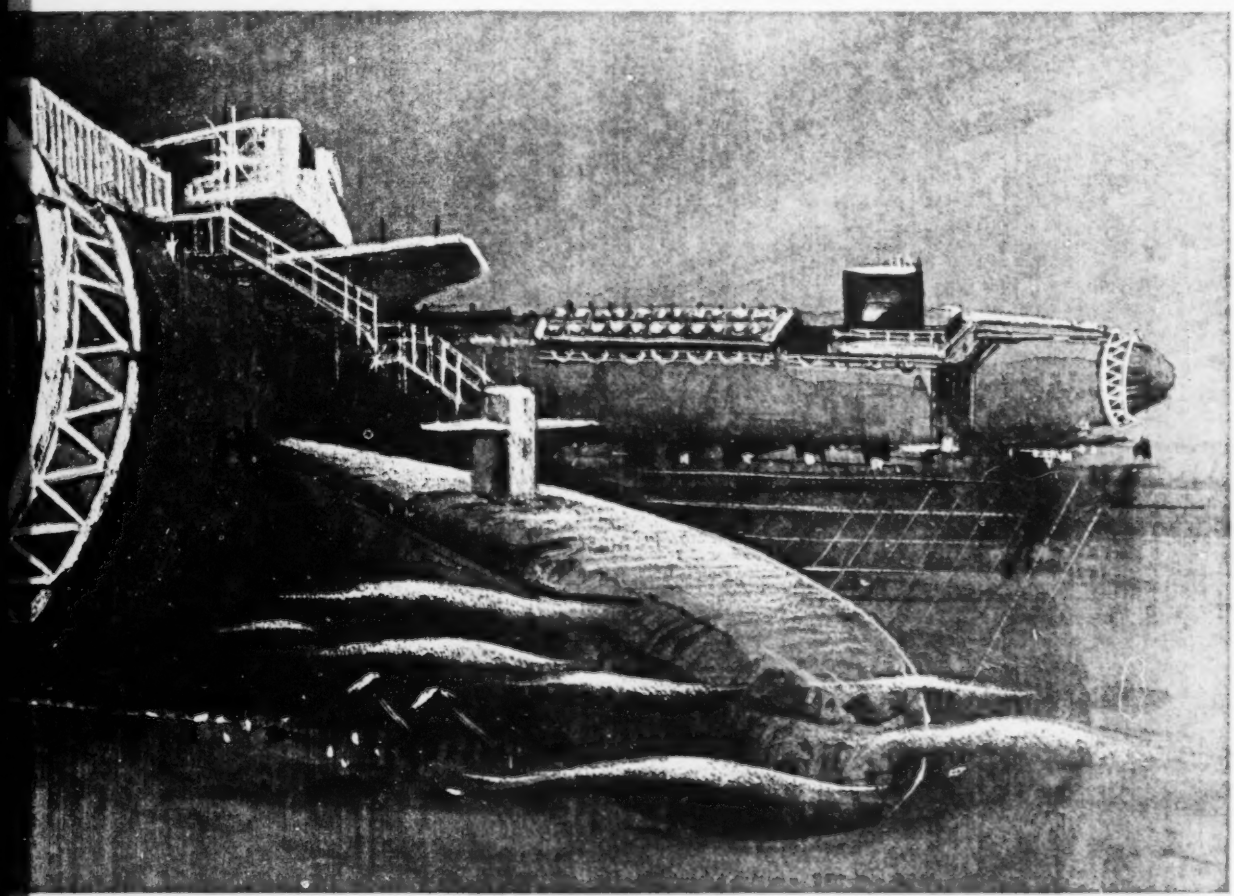


passing FY '81 appropriations, the Congress deleted $207 million for the T-AKX program, and only approved $33 million in advance procurement funding.

Of gravest concern, in these regards, is the preservation of an available shipbuilding capacity to achieve a hoped-for increase in naval ship requirements. At the start of the 1970 decade, less than 40,000 workers in private shipyards were engaged in naval construction. Naval ships then on order caused the workforce, skilled in the ways of Navy shipbuilding, to grow to 80,000 by mid-1979. That expansion was not without problems as exemplified by schedule slippages, cost overruns, and a resulting adversary relationship between the shipyards and the Navy: symptoms of a less than effectual contracting environment.

At year end, naval construction commanded the labors of some 60,000 skilled shipyard workers. Due to the absence of contract opportunities in the recent past, that employment level will fall inexorably to 45,000. Given the task to build a larger Navy in the future, the shipbuilding industry must reconstruct its skills again, and the unavoidable costs of recruitment and training will again be reflected in a higher price for ship construction.

From lessons learned, the Council is dedicated to creating and maintaining a business environment, with governmental understanding, that can sustain an effective naval expansion program without the problems of the '70's. Through its Committee structure, a series of initiatives, working in cooperation with the Navy, have been undertaken to ensure that goal.



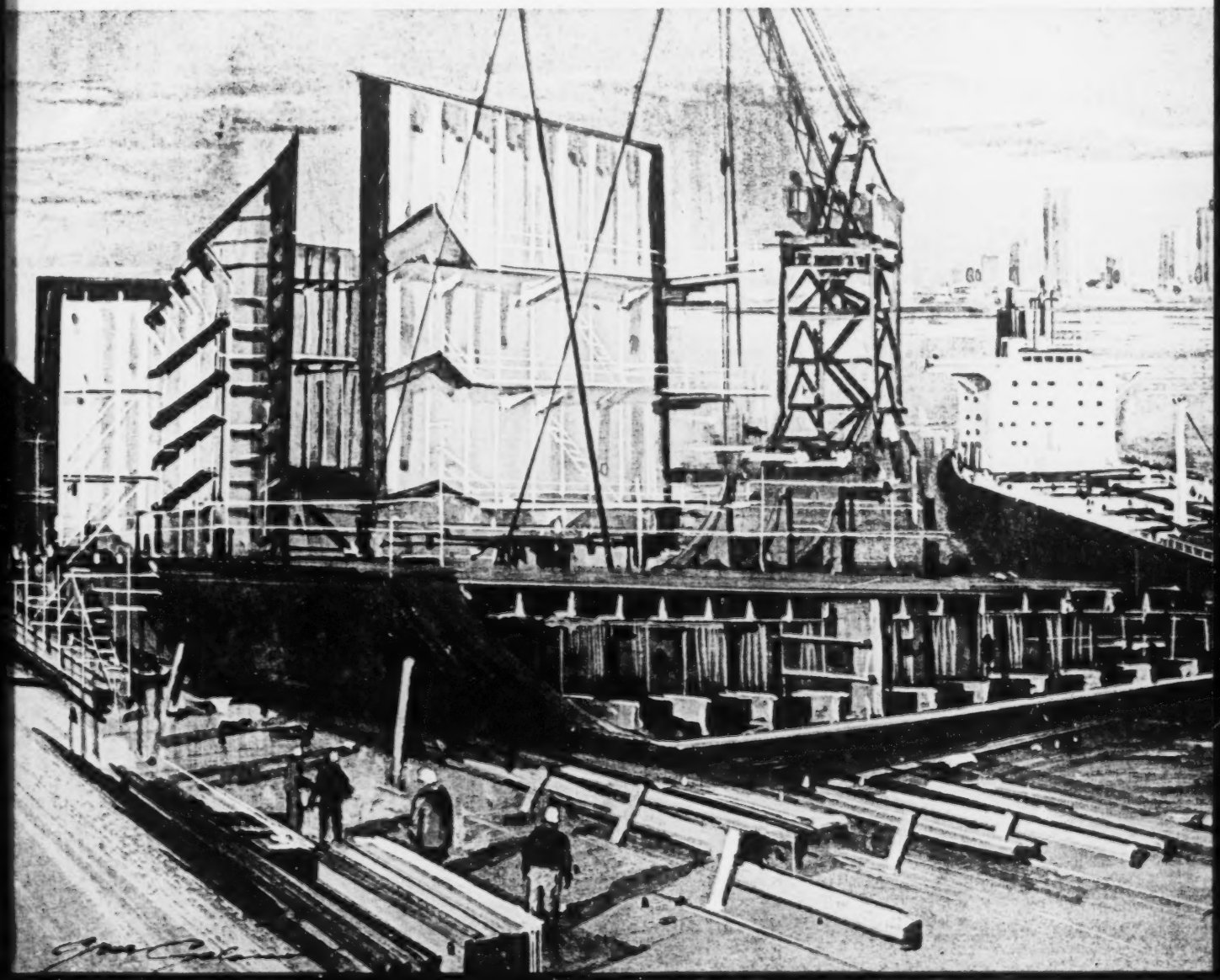
MERCHANT SHIPBUILDING

From the record of the past two decades, one is struck by the repeated evidence of a fruitless search for a fully effective and enduring policy to govern U.S. maritime affairs. 1980 was equally sterile.

At mid-year, it became increasingly apparent that proposed legislation to counteract persistent deficiencies as affecting U.S. shipping and shipbuilding capabilities would not be enacted. In point of fact, the much-publicized "omnibus maritime bill" was never brought to a vote in the Congress because of its controversial scope, Carter Administration indifference, jurisdictional squabbles and political events.

There was general agreement on the need for change and improvement, but, on details, industry and labor didn't agree, the Administration and the Congress did not agree, separate Executive Agencies within the government did not agree, shipowners and shipbuilders didn't agree, and, on some provisions, shipowners did not agree among themselves. For their part, shipbuilders made a number of concessions and compromises on basic principles in the hope of unity, but in vain.

This was not an exercise in total futility, however. The extensive Congressional hearings and accompanying public debate underscored these important points: (1) the devastating disarray with respect to U.S. maritime policy and implementation, (2) the Nation's critical dependence on imported strategic materials of which 95 percent or more is brought to U.S. ports by ships flying the

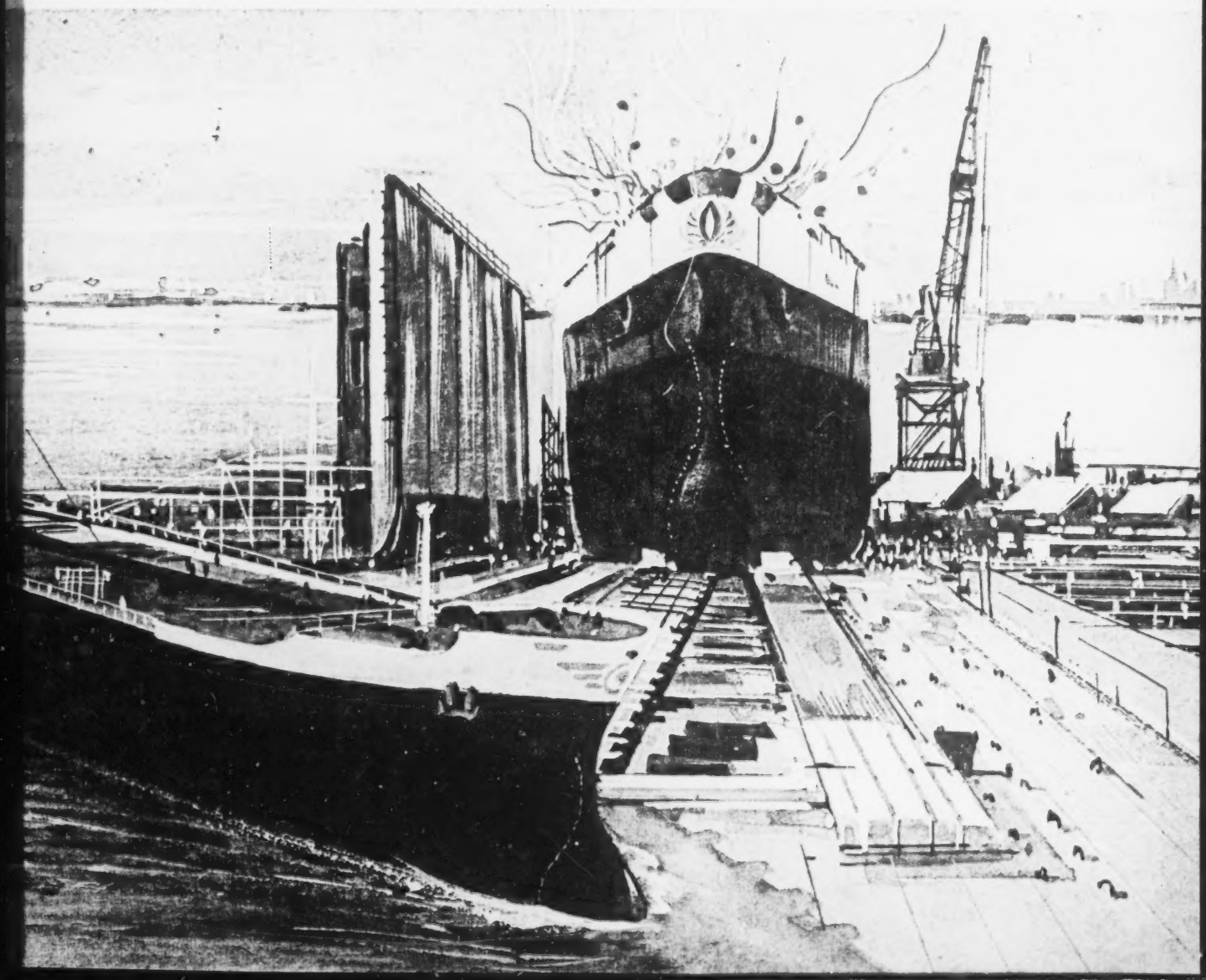


flags of other countries, and (3) the costly impact on U.S. shipbuilding prices resulting from regulatory requirements and standards more severe than those abroad. The resulting dialogue also provided a timely focus on the positive relationship of adequate and productive domestic shipbuilding and U.S.-flag shipping capabilities to the Nation's security and economic structure.

Seen from today's perspective, these points need to be considered in the context of world shipping and shipbuilding conditions as they exist, not in the context of 18th century textbook theories as some classical economists even now hypothesize. With a depressed market worldwide which is not predicted to return to normalcy before 1984 or 1985, shipbuilders in other countries are reportedly quoting prices as much as 40 percent below actual costs with the encouragement and blessing of their governments. This is possible through unique patterns of extraordinary subsidies, tax inducements, financing devices and accelerated capital depreciation.

But, as prices are lowered abroad, by whatever means, construction subsidy levels in this country rise, but they cannot exceed 50 percent by statute. The real differential with U.S. shipbuilding prices at this moment is probably closer to 60 or 65 percent: obviously, newbuilding opportunities in this country are affected by that which takes place abroad and, at the same time, they are doubly inhibited by the myopia of U.S. policies.

Practices of false pricing in other countries can-

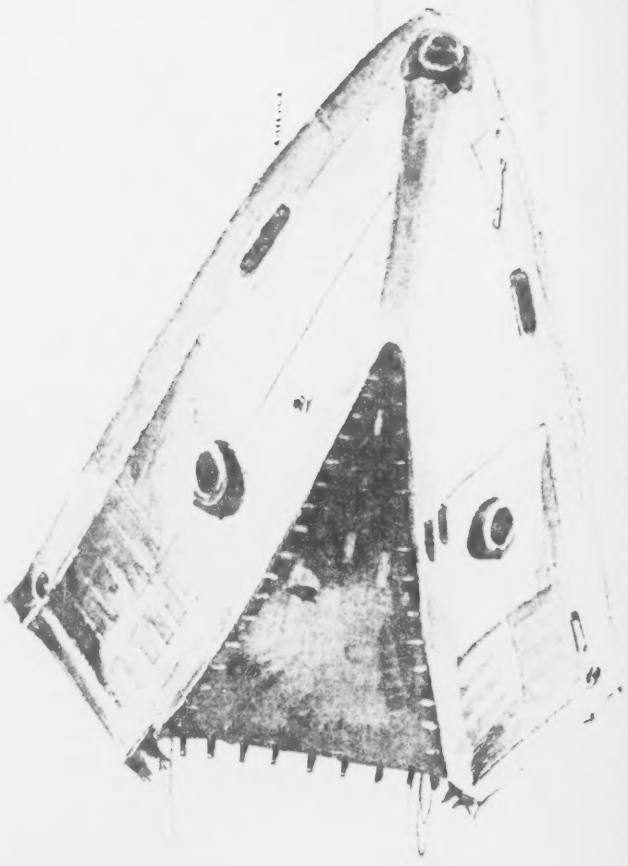


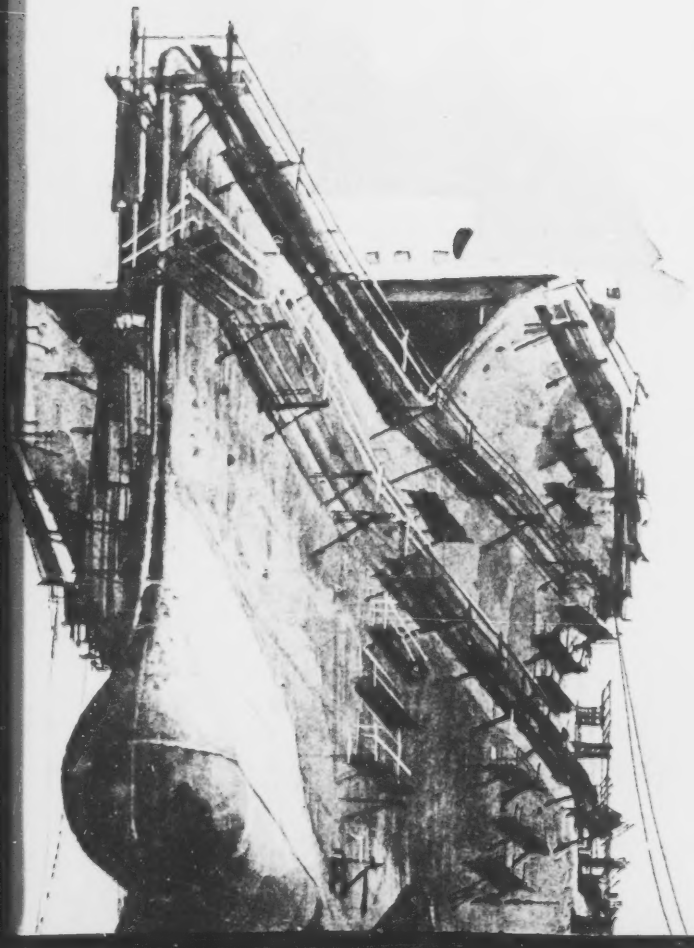
not continue indefinitely: the elastic limit of artificial government supports to indemnify shipbuilders against losses is not infinite. The elastic limit of government support for maritime affairs in the United States has traditionally been dictated by the availability and amount of Federal funds for ship construction and operations. Over time, Federal payments for operating subsidies, in total, have exceeded those for construction subsidies; yet, U.S. shipyards and supporting activities, over time, have provided far more jobs for American workers than seagoing operations.

It is nonetheless a fact of life that U.S. shipbuilders will prosper only to the extent that U.S. owners are able to order ships from them. To do so, the financing package must assure parity with foreign competition and that assurance must be predicated on efficient utilization through good management and profitable operations deriving from the transport of an increasing volume of cargoes. As President Reagan has put it: a greater market share of U.S. trade for U.S.-flag, U.S.-built ships.

The development of a fully effective and enduring national maritime policy will require enlightened recognition of the realities of world shipping and the realities of world shipbuilding as presently existing and not as they should conform with economic theories of yesteryears. Any endeavors to increase the market share of the U.S. merchant marine must begin with recognition of this pervasive fact: whatever free trade that now exists in shipping services is rapidly disappearing and will, in all probability, be virtually non-existent by the end of the 1980 decade.

As to liner trades, the Code of Conduct for Liner Conferences, dictating a 40-40-20 percent division of cargoes between the shipping fleets of trading partners and third-flag carriers, will enter into force in 1981, notwithstanding the abstention of the United States and the reservations of the European Economic Community and Japan with respect to their trade with the United States. Implementation of the Code, commonly known as UNCTAD, will severly increase pressures on U.S.-flag carriers operating in U.S. liner trades as displaced tonnages flock to the only major trades remaining open.





While the Code has many well-documented flaws, it is a reality with which the United States must contend, and to which the United States must assent, if the U.S.-flag liner fleet is to prosper.

As to the bulk trades, the Third World effort to achieve similar cargo sharing arrangements is just beginning, and, as with the Liner Code ten years ago, it is not taken seriously. The Department of State has evidently learned nothing from that experience and again steadfastly opposes any momentum toward development of a rational and effective policy.

As suggested earlier, the shipbuilding industry of the United States acknowledges that its prosperity and that of U.S.-flag ship operators depends upon a national maritime policy in tune with the world of the 1980's, not the 1780's or the 1880's. That policy, however, must recognize and deal with the worldwide movement toward bilateralism and promotion of national flag shipping fleets. A realistic maritime policy for the 1980's must also take into account the economic and tax stimulii which underpin the shipping and shipbuilding endeavors of other countries.

Meanwhile, the prospects for merchant shipbuilding in the United States will remain clouded. For the short-term, market opportunities for U.S. shipbuilders not principally involved in naval programs would seem to consist mainly of construction of specialized ships and vessels for domestic and Great Lakes trades in limited numbers; construction of barges and shallow draft vessels for the inland waterways and coastal trades; conversion of existing vessels; repowering of existing vessels with more fuel and cost efficient propulsion systems; retro-fitting of existing tankers to comply with environmental requirements; and certain types of non-ship work.

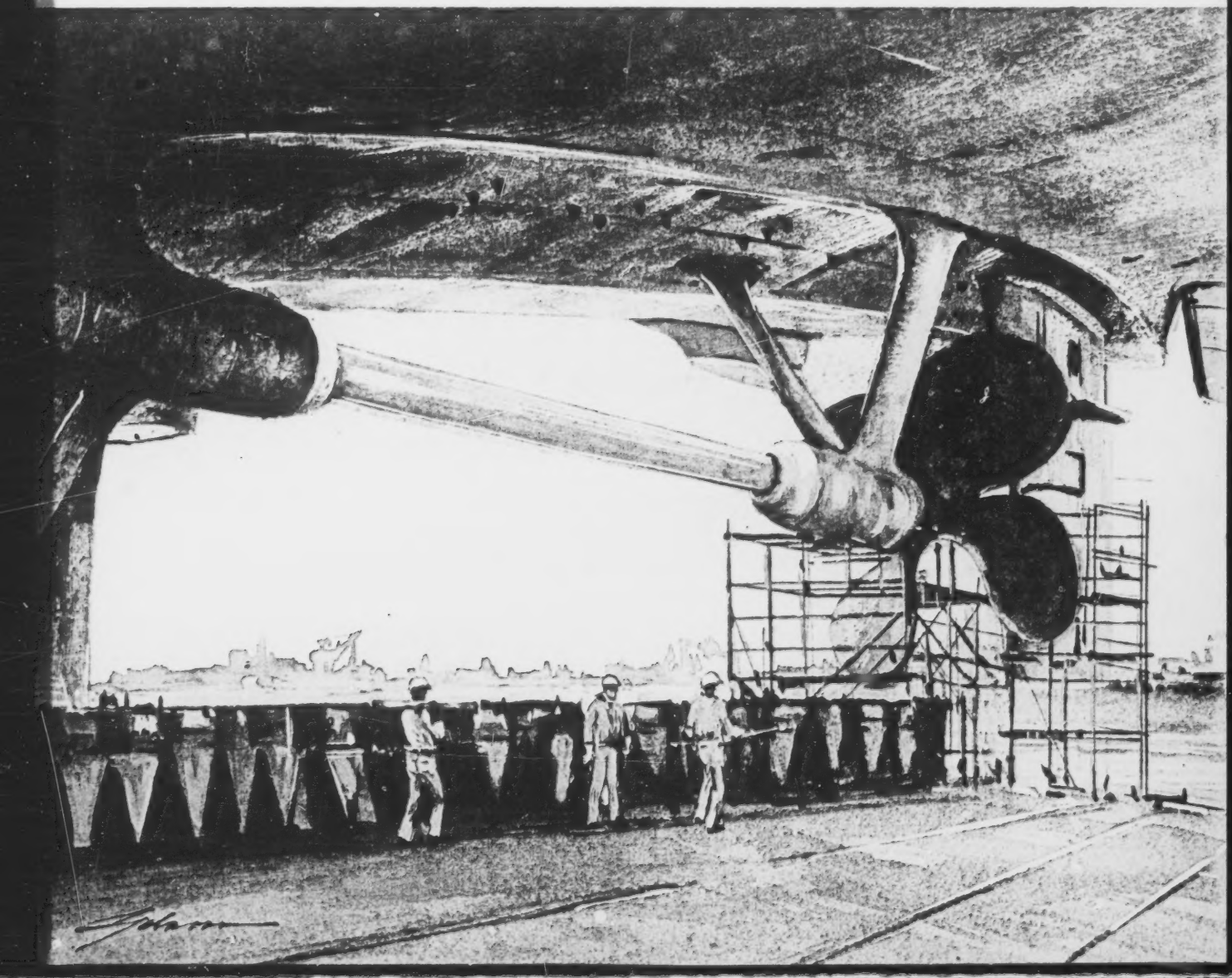
For the long-term, a gradual, not sharp, increase in merchant ship construction, starting in three or four years, to accommodate incremental increases in world trade and a rise in the volume of cargoes carried by U.S.-flag shipping seems likely. Overage or uneconomic vessels will need to be replaced. Opportunities to build dry bulk carriers, ocean mining ships, ocean thermal energy conversion plantships, and other specialized vessels should also develop.

INDUSTRY DEVELOPMENTS

At the close of 1980, the Defense Industrial Base Panel of the House Committee on Armed Services issued a disquieting report on "The Ailing Defense Industrial Base: Unready for Crisis," which concluded that "the general condition of the defense industrial base has deteriorated and is in danger of further deterioration in the coming years."

With a declining orderbook and uncertain future prospects, this judgment, as it applies to the shipbuilding industry and its suppliers, was similarly expressed by Members of the Congress, Executive Agency spokesmen and competent analysts during the year. There were also emphatic pronouncements from official quarters with regard to the essentiality of a shipbuilding mobilization base to national security. Yet, the Defense Department proceeded with the acquisition of foreign-built ships, and Carter Administration officials were unable to answer a direct question as to how that base was to be otherwise sustained.

Irregularity in demand and programming for both merchant and naval ships does not contribute to operational and workforce stability, nor to improved productivity and lower costs. The kinds of fluctuations which have characterized opportunities for U.S. shipbuilders over the last decade do not contribute to efficient planning, labor recruitment and reliability in the availability of ships' components, nor do they facilitate main-

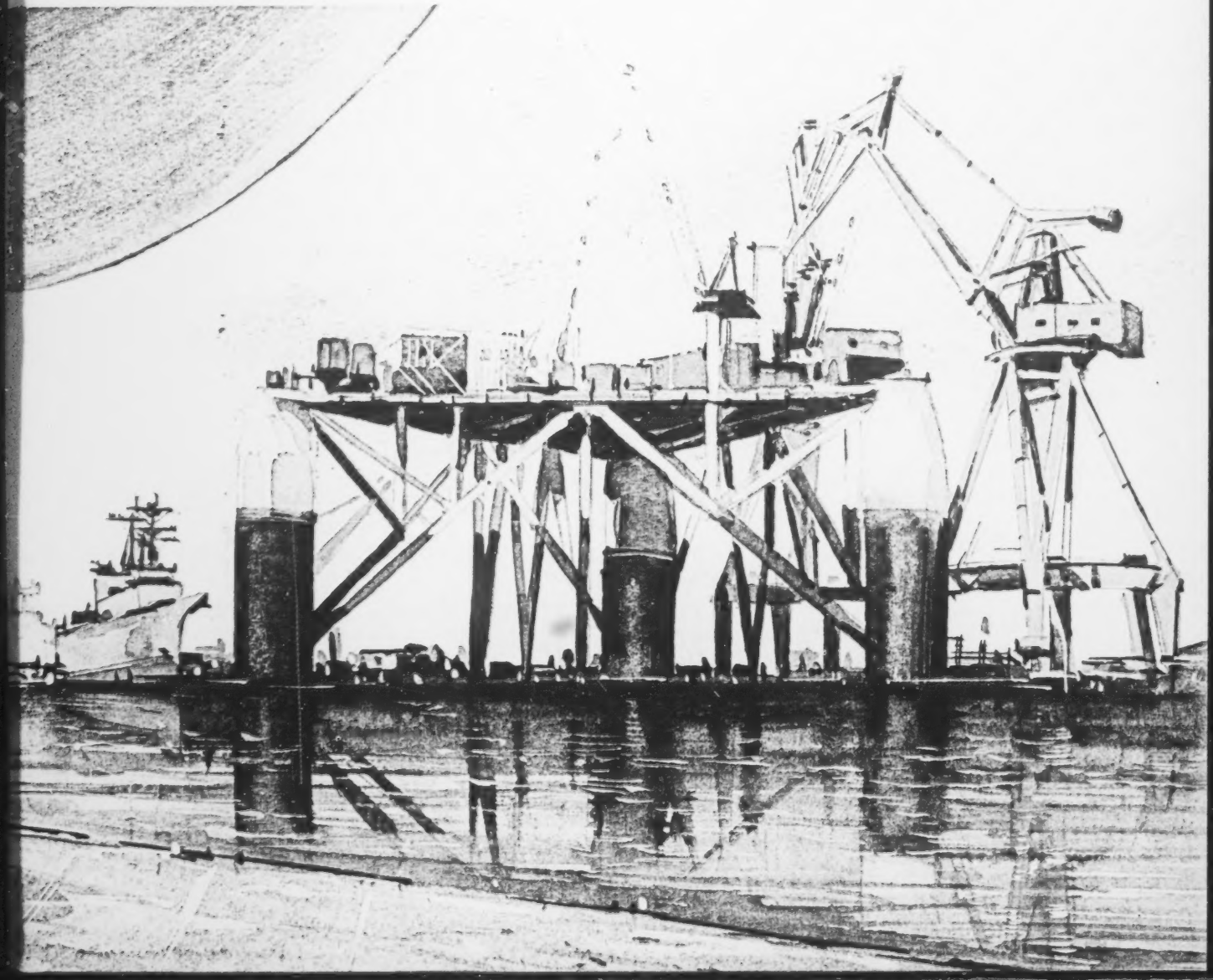


tenance of a mobilization base.

For too long, the backup industrial structure for naval and merchant ship construction has had a low priority in the policy-making and decision-making processes of the country. Manufacturers of ships' components are becoming less and less interested in producing items for which markets are either uncertain, diminishing or unprofitable. This situation is compounded by requirements for naval construction of higher than commercial standards. The long-term effects in terms of supply and costs are not difficult to perceive.

Since Colonial times, the law of the land — including the Merchant Marine Acts of 1920, 1936 and 1970 as well as the Defense Production Act of 1950 and the Defense Industrial Reserve Act of 1976 — has prescribed a national security requirement for shipbuilding, shiprepairing and support facilities within sovereign jurisdiction. A long series of Presidential edicts, Congressional findings and analytical studies have affirmed this requirement time and again. It has been consistently held that, in times of national crisis, the United States cannot, should not, and must not, rely on the ship production facilities of other countries.

The truth of this rationale was dramatically demonstrated in World War II when U.S. shipbuilders constructed more than 5,600 merchant



ships and nearly 1,500 naval vessels — a record which has no parallel in history. This phenomenal production output led THE NEW YORK TIMES to conclude that "the war at sea was won in United States shipyards." President Harry S. Truman was even more commendatory: "The shipbuilding accomplishments of the United States not only astonished the world but more important than that, defeated the enemy." These accomplishments were possible by virtue of the vision of President Franklin D. Roosevelt in initiating, in 1936, a production nucleus pointed toward the construction of 50 merchant ships per year.

Though there is continuing debate as to how long the next conflict involving the United States may last and as to how many ships and shipyards may be needed, the national requirement of an appropriate production nucleus to build merchant as well as naval ships has not diminished. With the instability of world conditions today, it has an even more urgent meaning.

To preserve a shipbuilding base capable of subsequent expansion, however, there must be a throughput of ship construction. Throughput is affected by a wide spectrum of factors, including the efficacy of government policy, the strength of the marketplace and the availability of capital. Without sufficient throughput, shipyard facilities and workforce cannot be preserved for defense or any other purposes, nor can they be managed in an efficient and productive manner. Without appropriate throughput, the potentials for profits and capital improvements are non-existent.

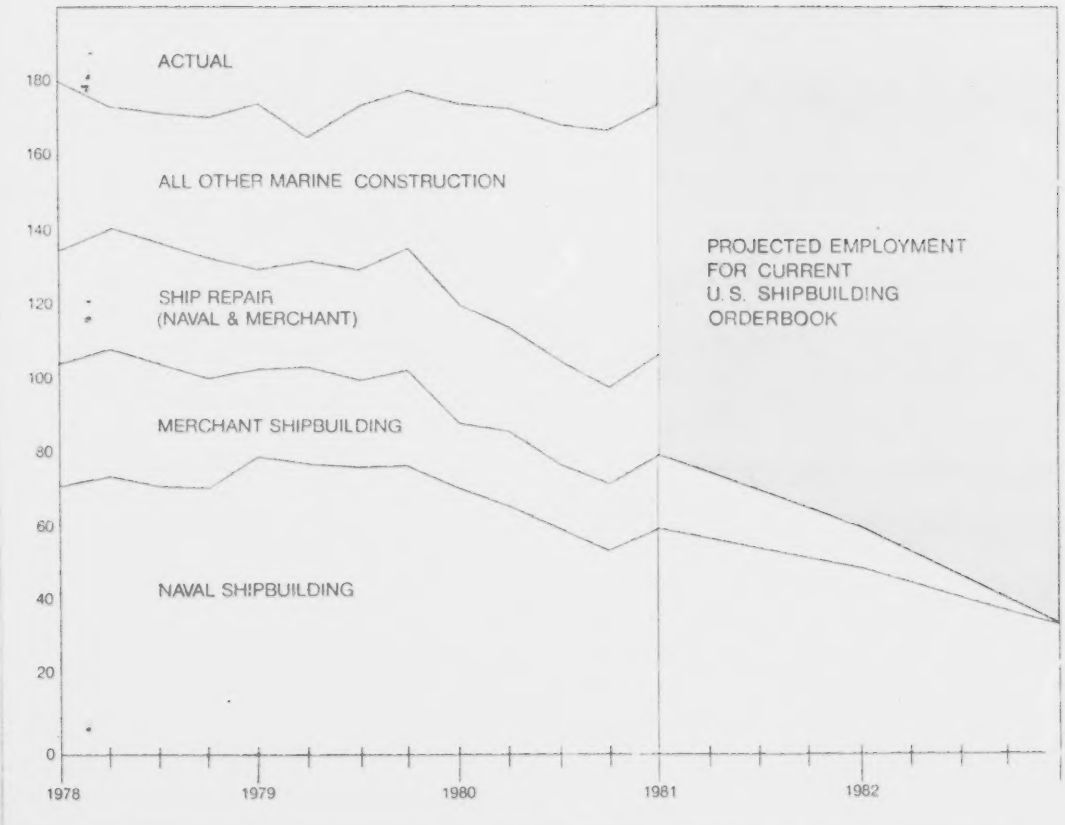
President Reagan says that preservation of "our vital shipbuilding mobilization" base is to be ensured, but to be ensured, there must be a greater throughput of ship construction than has lately been the case. Unfortunately, the real impact of any actions he and his Administration may take to change the current unpromising outlook will not be felt in the shipyards for at least two to three years — too late to prevent unemployment for some skilled workers.

The political and fiscal problems related to a greater shipbuilding effort are not minimized but, in absolute terms, every dollar spent in this country, rather than abroad, for the construction of merchant ships produces a positive impact on the gross national product, employment for workers in shipyards and support activities, the trade balance, and the flow back of tax revenues to the public treasury. The Federal deficit is decreased, and inflation is affected negligibly.

These are the general findings of an evaluation of the "Economic Impact of the U.S. Shipbuilding and Ship Operating Industries" conducted recently by the economic forecasting firm of Data Resources, Inc. From this cost/benefit analysis, it can reasonably be concluded that preservation of a U.S. shipbuilding capability and expansion of the U.S. merchant shipping fleet to enhance national security are jointly achievable with positive effects on the national economy.

There are other relevant factors. Contemplation of construction of U.S. ships in other countries, rather than by domestic shipbuilders, is regarded by the rest of the world as evidence of a lack of faith in U.S. political, economic and industrial beliefs and institutions. It signals to the rest of the world an incomprehensible disposition to distort even more the balance of international payments. It signifies to the rest of the world a mistaken conception that the United States is indifferent to the importance to maintaining some semblance of control over the flow of its own exports and imports.

The ramifications are many. Clearly, a change from the past, a change in attitudes, policies and programs is imperative if an industrial strategy to assure maintenance of a shipbuilding and supporting mobilization base is to be developed and nurtured.



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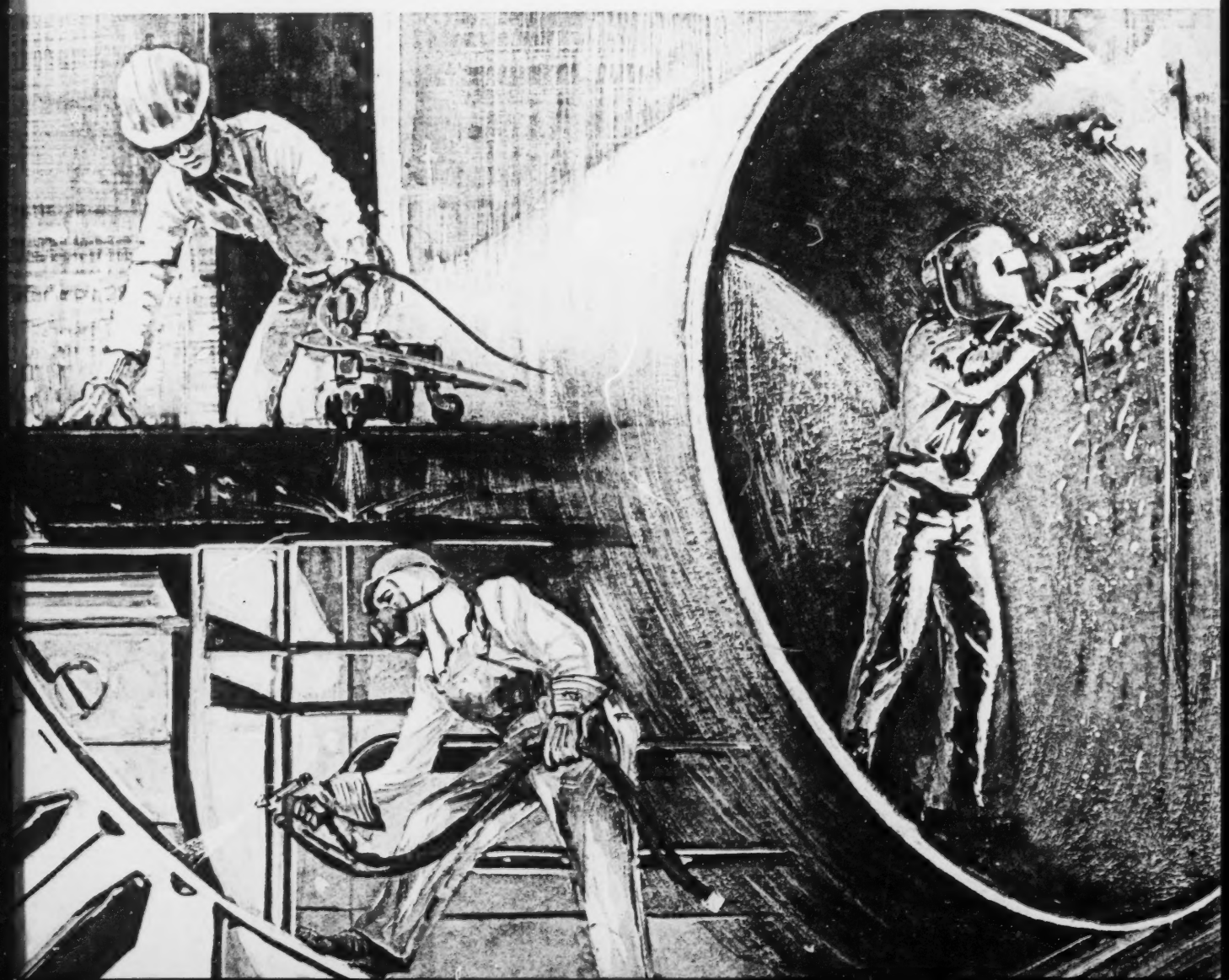
BENCHMARKS

Merchant Ship Orders: During 1980, U.S. private shipyards received contracts for only seven merchant ships aggregating 116,200 gross tons (gt). New Orders for 1979 and 1978 were 21 vessels (487,170 gt) and 30 vessels (394,023 gt) respectively. Contracts awarded in 1980 included four tankers, two tuna purseiners and one self-propelled hopper dredge.

Merchant Ship Deliveries: Merchant ship deliveries for 1980 totaled 23 vessels of 788,388 gt. In 1979, 23 ships of 1,298,414 gt were completed compared with 19 ships of 1,027,100 gt in 1978. 1980 deliveries consisted of five liquefied natural gas (LNG) carriers, three containerships, three Great Lakes ore carriers, three ferries, two tankers, two breakbulk cargo ships, two tuna purseiners, two self-propelled hopper dredges and one lighter aboard ship (LASH). During 1980, contracts for two dry bulk carriers and two liquefied natural gas (LNG) carriers were cancelled.

Merchant Ship Orderbook: As 1981 began, the backlog of merchant ships under construction or on order in U.S. commercial shipyards comprised 49 ships totaling 937,260 gt. One year earlier, the comparable figures were 69 ships and 1,816,448 gt. Composition of the current backlog: 11 tankers all of which are less than 50,000 deadweight tons each, 12 tug/barges, six ferries, five self-propelled hopper dredges, three Great Lakes ore carriers, three oceangoing drybulk carriers, three containerships, three container-roll on/

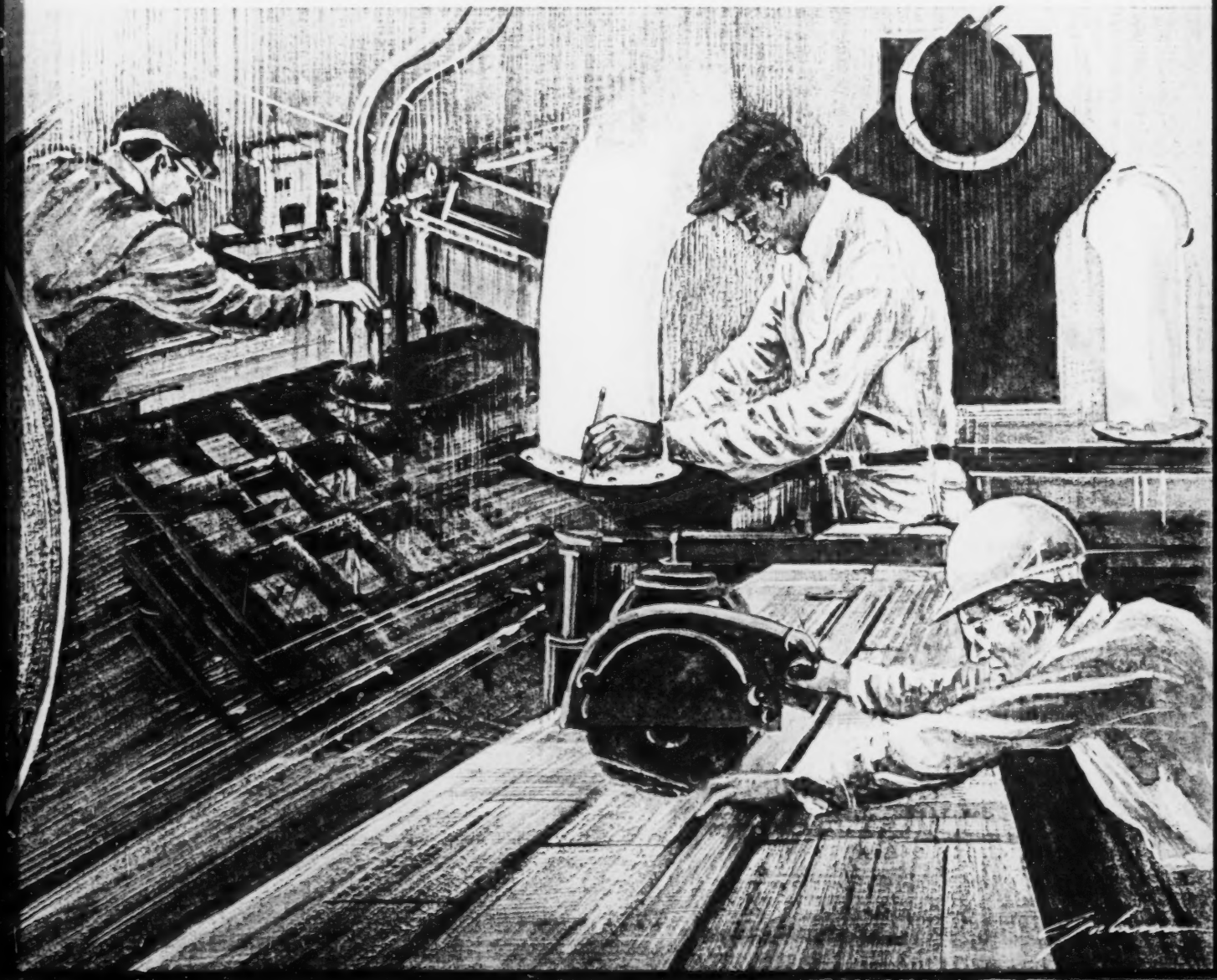


roll off vessels, two tuna purseiners and one lighter aboard ship (LASH).

Oil Drilling Rigs: U.S shipyards, during 1980, received contracts to build 53 new mobile oil drilling rigs, which was an all-time high. Forty-three were jackups, eight were submersibles and two were semisubmersibles. In 1979, contracts for 30 rigs, all jackups, were placed in the United States. At the close of 1980, there were 72 rigs on order or under construction compared with 35 rigs at the end of 1980. A total of 16 rigs of all types were delivered in 1980. Deliveries for 1979 totaled 18.

Naval Ship Orders: In 1980, orders for 11 new naval ships were placed in U.S. private shipyards compared to 13 ships in 1979. They included six guided missile frigates of the OLIVER HAZARD PERRY (FFG-7) class, three ocean surveillance ships (T-AGOS), one guided missile cruiser (CG) and one nuclear aircraft carrier (CVN). At year end, still to be ordered were 20 ships in the FY 80/81 naval ship program: one TRIDENT, four SSN's, two CG's, six FFG's, one dock landing ship (LSD), one salvage ship (ARS) and five T-AGOS.

Naval Ship Deliveries: U.S. shipyard deliveries in 1980 included 19 naval vessels: seven guided missile frigates (FFG), five destroyers (DD), three fleet ocean tugs (T-ATF), one nuclear guided missile cruiser (CGN), one amphibious assault



Proposed FY '82 Federal Budget for Shipbuilding and Repair with Prior Years Appropriations

(MILLIONS)

	FY '80 Actual	FY '81 Appropriated	FY '82 Request
Navy Shipbuilding & Conversion	$ 6,621.0	$ 7,483.6	$ 6,639.6
Navy Ship Repair/Alteration (Est.)	3,098.8	3,745.7	3,894.0
Merchant Ship Const.	101.0	135.0	107.0
U.S. Coast Guard (Est.)	112.5	125.0	177.0
Corps of Engineers	69.2	89.4	49.5
TOTAL	$10,002.5	$11,578.7	$10,867.1

ship (LHA), one destroyer tender (AD) and one fleet oiler (AO).

Naval Ship Orderbook: At the close of 1980, U.S. private shipyards had 91 naval vessels of 628,418 light displacement tons (ldt) under construction or on order. Comparable figures at the end of 1979 were 99 vessels of 629,782 ldt. Current naval shipbuilding orderbook is set forth in detail on page 30.

Proposed FY '82 Navy Budget: The requested budget for naval ship construction and conversion in FY '82 totals $6,639.6 million compared with $6,621.0 and $7,483.6 million in FY '80 and FY'81 respectively. The FY'82 budget projects planned construction of only six combatant ships, as opposed to 12 ships in FY'81, and eight auxiliary ships plus conversion of three existing merchant vessels to logistic support ships and purchase of the British combat supply ship LYNESS.

Proposed FY'82 Maritime Administration Budget: The FY'82 Maritime Administration budget request includes $107 million for subsidized merchant ship construction — three bulk carriers are envisioned. The amount compares with $135 million authorized and appropriated for FY'81.

U.S. Coast Guard: For FY'82 U.S. Coast Guard requests approximately $177.0 million for construction of three 270-ft cutters as part of ongoing program.

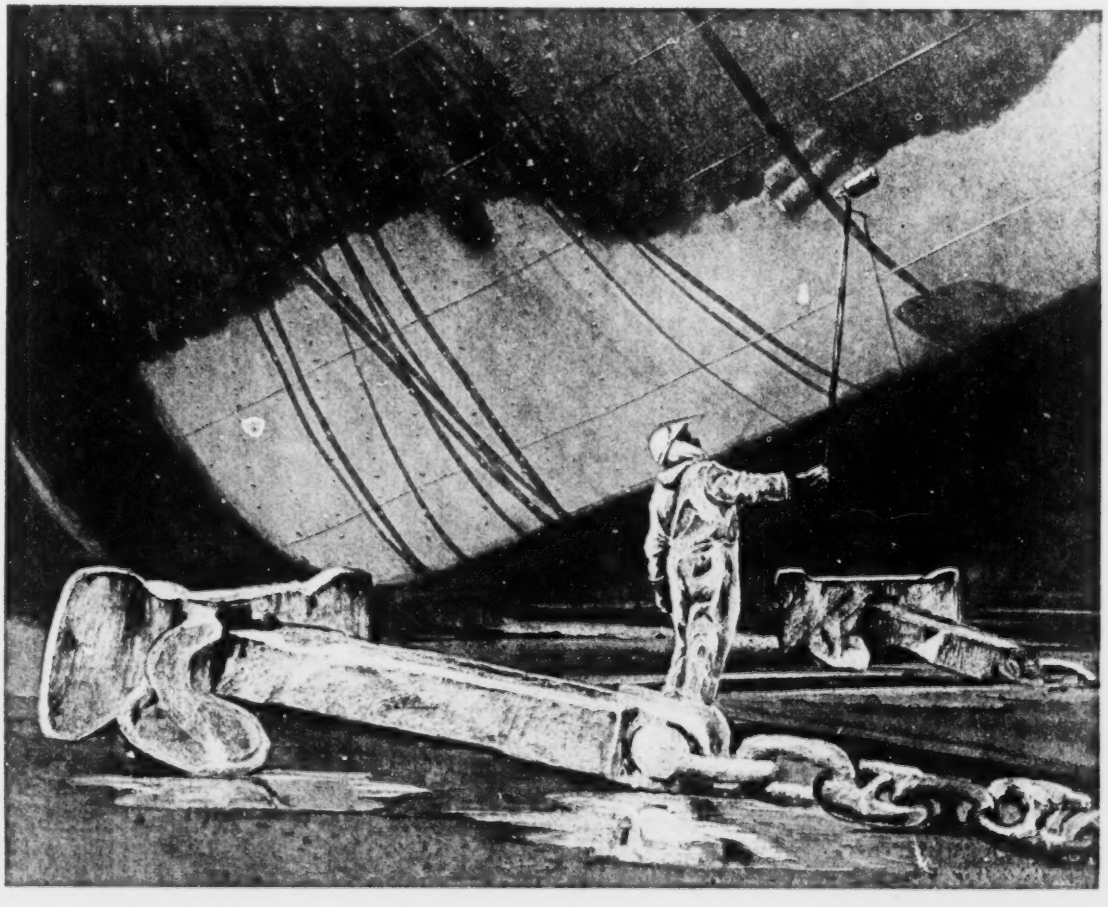
U.S. Corps of Engineers: New funding for U.S. Army Corps of Engineers includes $49.5 million to cover construction of previously approved dredges plus rehabilitation of existing dredges and equipment.

Employment Hours and Earnings: Latest tabulation of 1980 data made available by the U.S. Bureau of Labor Statistics (BLS) shows that the total employment in private shipyards had reached 171,600 in October. Average for ten months was 169,900. Yearly averages for 1979 and 1978 were 171,600 and 172,000 respectively. BLS figures further indicated that during October, employment of production workers totaled 135,500. Comparable annual averages of production workers for 1979 and 1978 were 136,400 and 137,300 respectively.

Gross hourly earnings of shipyard production workers averaged $8.85 in October 1980 as compared to a yearly average of $7.66 in 1979 and $6.98 in 1978. Average weekly earnings in October 1980 amounted to $364.62 as compared to an annual average of $302.57 in 1979 and $271.52 in 1978. Private shipyards production workers worked an average of 41.2 hours per week in October 1980, as compared to an annual average of 39.5 hours in 1979 and 38.9 hours in 1978.

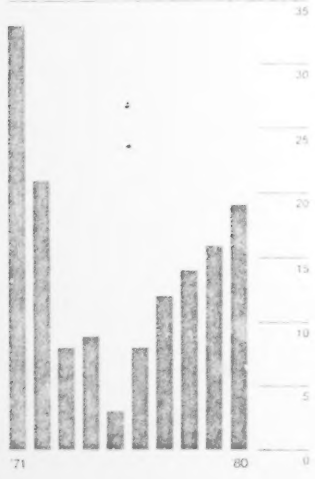
All employment, hours and earnings statistics for the private shipbuilding and shiprepairing industry were revised again by BLS to a new 1979 benchmark. Data for 1978, 1979 and 1980 are the only years affected by the benchmark change.

Naval Shipyard Employment: In October, 1980, employment in the eight government-owned and operated naval shipyards totaled 72,900. The average for the first ten months of 1980 was 72,200. Averages for 1979 and 1978 were 71,100 and 70,600 respectively.



NAVAL VESSELS:
Deliveries by calendar years
(Ships of 1,000 light displacement
tons and larger)

NUMBER OF SHIPS

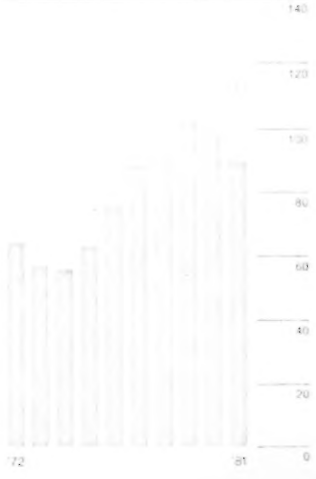


NAVAL VESSELS:
Deliveries by calendar years
(Ships of 1,000 light displacement
tons and larger)

TONS IN THOUSANDS

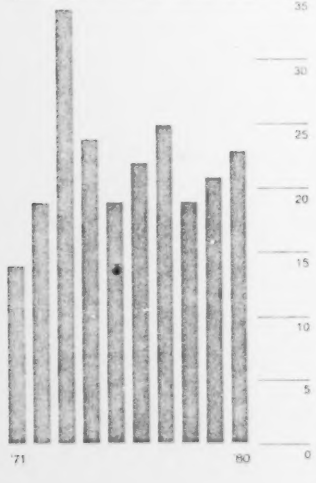
NAVAL VESSELS:
Building or on order as of Jan. 1
(Ships of 1,000 light displacement
tons and larger)

NUMBER OF SHIPS



MERCHANT VESSELS:
Deliveries by calendar years
(Ships of 1,000 gross
tons and larger)

NUMBER OF SHIPS



MERCHANT VESSELS:
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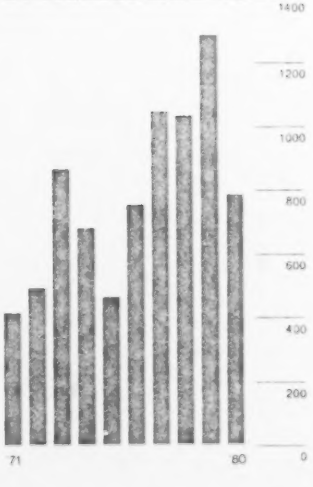

MERCHANT VESSELS:
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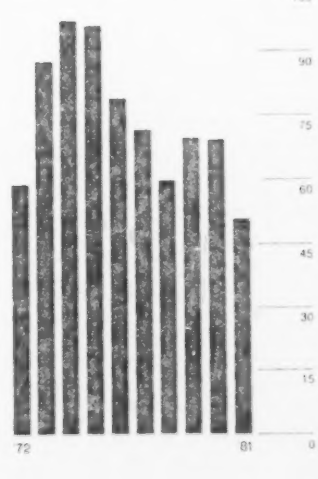

NAVAL VESSELS:
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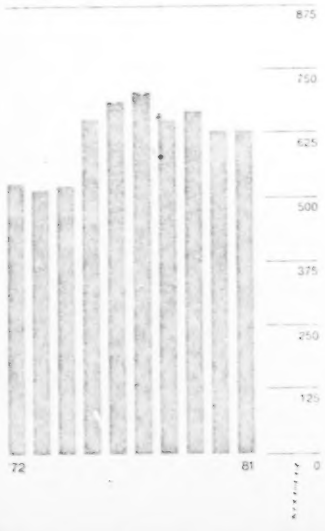
(Ships of 1,000 light displacement tons and larger)



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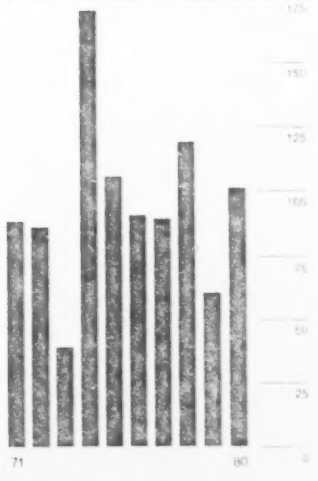

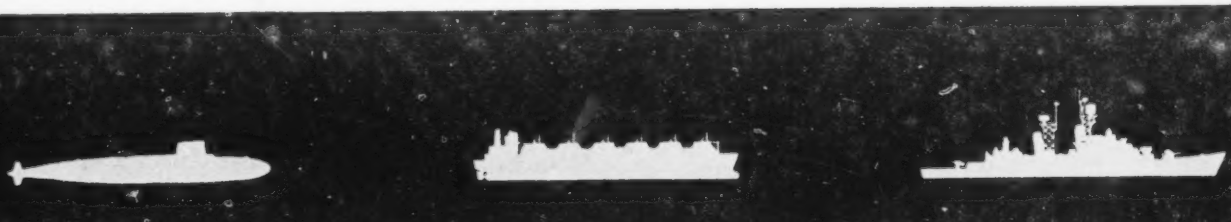

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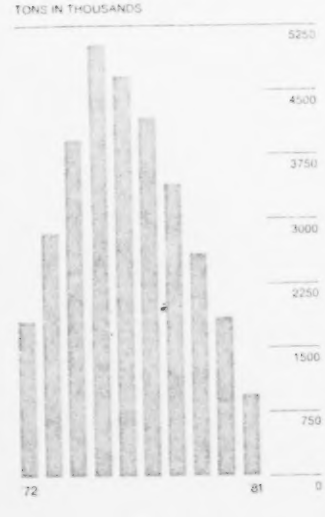

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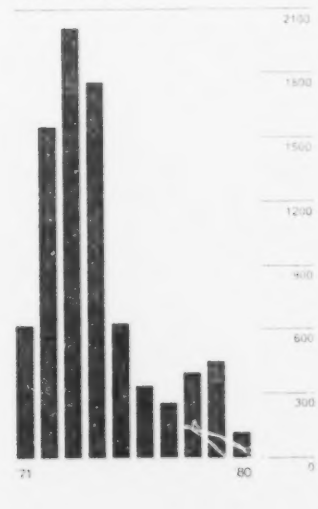

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Litton Industries

LEGISLATIVE DEVELOPMENTS

"The Omnibus Maritime Regulatory, Reform, Revitalization and Reorganization Act of 1980" was at the center of the Council's legislative interests during the year. Intended to expand the U.S.-flag shipping fleet, to strengthen the industrial base for shipbuilding, to modify regulatory procedures, to stimulate a greater carriage of U.S. imports and exports by the American merchant marine, this legislation was never brought to a vote in the Congress primarily because of its broad scope which engendered considerable confusion and controversy. As discussed in the Merchant Shipbuilding section of this report, (pages 10-13), this was not an effort in total futility.

There were two other bills, as well as annual authorization and appropriations measures affecting the Defense Department and the Maritime Administration, supported by the Council and enacted in the Second Session of the 96th Congress, which had a bearing on U.S. shipbuilding:

- to provide permanent authority for negotiated contracting between shipbuilders and purchasers of government-subsidized merchant vessels
- to provide construction-differential subsidy (CDS) and Title XI Federal ship mortgage guarantees, under the Merchant Marine Act of 1936, as amended, for ocean thermal energy conversion plantships and ocean mining transport vessels

In addition to participating in extensive Congressional hearings on aspects of the "omnibus" maritime bill, spokesmen for the Council testified before Committees of the Congress on

- the unanticipated, intolerable and steadily increasing cost impact of the 1972 amendments to the Longshoremen's and Harbor Workers' Compensation Act
- the unworkability of outmoded profit reporting provisions of the Vinson-Trammell Act of 1934
- the Navy's budget for ship overhauls and repairs in FY '81
- the need for definitive enabling legislation to improve "build and charter" techniques by which U.S. Navy auxiliary vessels might be acquired
- the practicality of a depreciation differential between U.S.-built and foreign-built merchant vessels as a means of stimulating ship construction in the United States

The Council also presented statements before the Platform Committees of the Republican and Democratic parties stressing the deterioration in U.S. naval and maritime resources, the erosion of the U.S. industrial base to build naval and merchant ships and the urgent requirement for corrective action.

ACTIVITIES

VADM Earl B. Fowler, Jr.

VADM Sir Cameron Rusby

RADM Sumner Shapiro

Paul S. Trible, Jr.

The construction of naval and merchant ships in the United States must be stimulated. Shipbuilding in the United States is conducted in a production, political, social, regulatory and tax environment different from that which exists abroad. A change in tax policy could be beneficial not only in assuring that a shipbuilding mobilization base for national security will be preserved but also in alleviating the expected 35 percent decline in shipyard employment within that base over the next several years. U.S. national interests will be served accordingly.

These precepts have guided the activities of the Council and the actions of its Board of Directors (see page 32) and its Committees (see pages 24-26) in 1980, as always.

In cooperation with other organizations, the Council has had a substantial role in focussing public, Congressional, governmental and media attention on the deficiencies in the Nation's sea power resources and on the impediments to correction of these deficiencies. These groups have included:

American Iron & Steel Institute
Committee for Effective Capital Recovery
Congressional Shipyard Coalition
Congressional Steel Caucus
Council of Defense and Space Industries Association
Longshore Action Committee
National Maritime Council
The Navy League of the United States
The Propeller Club of the United States
U.S. Maritime Committee

In cooperation with the Department of the Navy, the concept of Naval Sea System Command/Shipbuilders Council of America forums to discuss aspects of mutual problems in fulfilling contractual requirements was expanded during the year, and now includes "forums" dealing with contract administration, ship construction and ship repair. A similar approach is being developed with the U.S. Coast Guard.

With the seemingly endless profusion of Federal regulations, it has been necessary to establish an Ad Hoc Committee on Carcinogen Policy (including the previous Ad Hoc Committee on Asbestos) which has been unusually active during 1980 in the preparation of Council positions with regard to standards proposed principally by the Occupational Safety and Health Administration covering lead, noise and carcinogens. These activities have required special coordination between the Environmental Control Committee, the Industrial Health & Safety Committee and the Workers' Compensation Committee.

In addition, the Executive Finance Committee was redesignated as the Executive Committee, the Legislative Liaison Committee was renamed the Government Affairs Committee, and the Procurement Advisory Committee and the Contracts Regulations Review Committee were consolidated as the Contracts Committee.

In keeping with usual custom, the following dignitaries spoke at the quarterly luncheons of the Board of Directors:

VADM Earl B. Fowler, Jr., USN,
Commander,
Naval Sea Systems Command

VADM Sir Cameron Rusby, Royal Navy, KCB, MVO,
Deputy Supreme Allied Commander, Atlantic, and Chairman,
NATO Sealift and Resupply Panel

RADM Sumner Shapiro, USN,
Director,
Office of Naval Intelligence

The Honorable Paul S. Trible, Jr.
(R-VA), Co-Chairman,
Congressional Shipyard Coalition

Shipbuilding Activity in Private Shipyards (During Calendar Years 1977, 1978, 1979, and 1980)

	1977		1978		1979		1980	
Merchant Vessels	No.	Tons	No.	Tons	No.	Tons	No.	Tons
Under Construction Jan. 1	72	4,237,675	60	3,467,303	70	2,635,192	69	1,816,448
Ordered during year	13	265,500	30	394,023	21	487,170	7	116,200
Delivered during year	25	1,035,872	19	1,027,134	21	1,298,414	23	788,388
Cancelled during year	0	0	1	199,000	1	7,500	4	207,000
Under Contract on Dec. 31	60	3,467,303	70	2,635,192	69	1,816,448	49	937,260
Naval Vessels								
Under Construction Jan. 1	88	711,590	91	652,457	102	676,913	99	629,782
Ordered during year	15	88,616	25	119,478	13	60,646	11	101,072
Delivered during year	12	147,749	14	95,022	16	107,777	19	102,436
Under Contract on Dec. 31	91	652,457	102	676,913	99	629,782	91	628,418

Notes: Vessels of 1,000 tons and larger, tonnage of merchant ships shown in gross tons, naval vessels in light displacement tons.

STATISTICAL SUMMARY

Large Merchant Type Vessels Under Construction or on Order (1,000 gross tons and larger)

	January 1, 1978		January 1, 1979		January 1, 1980		January 1, 1981	
	No.	G.T.	No.	G.T.	No.	G.T.	No.	G.T.
Ferry	3	11,250	8	27,580	9	29,680	6	20,890
Tanker, Oil	17	1,638,468	12	993,384	9	267,000	11	274,900
LNG Carrier	16	1,331,125	11	952,525	7	632,725	0	0
Tug/Barge	2	28,000	5	70,000	12	245,000	12	245,000
Ro/Ro Barge	1	7,500	1	7,500	0	0	0	0
Containership	5	115,960	5	119,060	6	194,400	3	121,470
Containership—Ro/Ro Ship	0	0	2	37,000	3	55,500	3	55,500
Barge Carrier	2	60,000	2	60,000	2	60,000	1	30,000
Heavy-Lift	2	8,000	1	4,000	0	0	0	0
Breakbulk	3	3,000	3	3,000	2	2,000	0	0
Dry Bulk Carrier	8	261,000	12	338,700	11	297,700	6	160,000
Hopper Dredge	0	0	4	16,443	6	30,443	5	27,500
Pipe Laying Ship	1	3,000	1	3,000	0	0	0	0
Tuna Purseiner	0	0	3	3,000	2	2,000	2	2,000
Totals	**60**	**3,467,303**	**70**	**2,635,192**	**69**	**1,816,448**	**49**	**937,260**

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Naval Vessels Under Construction or on Order in Private Shipyards as of January 1, 1982

TYPE	NO. OF VESSELS	TOTAL LIGHT DISP. TONS
Destroyer Tender (AD)	3	40,200
Fleet Oiler (AO)	4	38,000
Submarine Tender (AS)	1	13,400
Guided Missile Cruiser (CG)	2	17,820
Aircraft Carrier (Nuclear) (CVN)	2	142,000
Destroyer (DD)	1	5,000
Guided Missile Destroyer (DDG)	4	32,800
Guided Missile Frigate (FFG)	34	92,718
Ballistic Missile Submarine (Nuclear) (SSBN)	7	87,500
Attack Submarine (Nuclear) (SSN)	23	138,000
Ocean Surveillance Ship (T-AGOS)	3	4,800
Cable Repair Ship (T-ARC)	1	8,430
Fleet Ocean Tug (T-ATF)	2	2,950
USCG Medium Endurance Cutter (WMEC)	4	4,800
TOTAL	91	628,418

Approximate Value of Shipbuilding Work in Private Shipyards as of January 1 (thousands of dollars)

YEAR	COMMERCIAL SHIPS	NAVAL SHIPS	TOTAL
1968	788,000	1,649,000	2,437,000
1969	800,000	1,700,000	2,500,000
1970	765,000	1,719,000	2,484,000
1971	765,000	1,925,000	2,690,000
1972	1,058,000	2,255,000	3,319,000
1973	2,950,000	3,160,000	6,110,000
1974	3,770,000	3,603,000	7,373,000
1975	4,350,000	5,424,000	9,774,000
1976	3,400,000	6,500,000	9,900,000
1977	3,000,000	6,802,000	9,802,000
1978	2,120,000	7,508,000	9,628,000
1979	1,940,000	9,369,000	11,309,000
1980	2,070,000	9,075,000	11,145,000
1981	1,050,000	9,000,000	10,050,000

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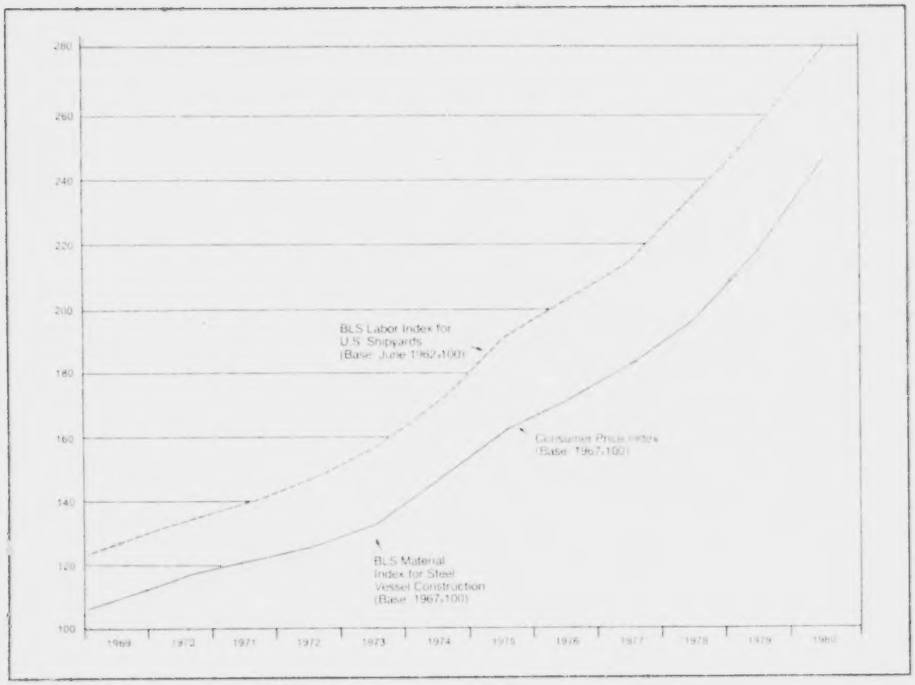
Average Indices Values for U.S. Shipyard Labor/ Material and Consumer Price



Dollar Volume of Repair and Conversion Work Performed by Private Yards

(millions of dollars)

YEAR	COMMERCIAL SHIPS*** $ AMOUNT	%	NAVAL SHIPS $ AMOUNT	%	TOTAL
1968	458	55.8	363	44.2	821
1969	532	58.1	384	41.9	916
1970	431	54.6	359	45.4	790
1971	450	58.1	325	41.9	775
1972	484	55.6	387	44.4	871
1973	523	57.0	393	43.0	916
1974	713	57.0	533	43.0	1246
1975	688	55.4	554	44.6	1242
1976	715	52.6	644	47.4	1359
1977	789*	52.0	718*	48.0	1507*
1978	829**	48.0	915**	52.0	1744**
1979	870**	48.0	944**	52.0	1814**
1980	914**	49.0	962**	51.0	1876**

*Revised **Estimated ***Includes Military Sealift Command (MSC)
Source — Bureau of Census and Shipbuilders Council of America

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Newport News Shipbuilding
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Chula Vista, CA 92012

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Savannah, GA 31402

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Todd Pacific Shipyards Corp.
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New York New Jersey Dry Dock Assn.
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New York, NY 10038

Western Shipbuilding Assn.
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San Francisco, CA 94119

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Auditor: Paul W. Huber

Counsel: Collier, Shannon, Rill & Scott

Graphics: Gene Galasso Associates

Investment Counselor: Loomis, Sayles & Co., Inc.

Travel: Chevy Chase Travel, Inc.

The Purposes of the Council are:

(a) to promote the maintenance of a sound private shipbuilding and shiprepairing industry in the United States;

(b) to inform its members of economic, governmental, industrial, legislative and judicial developments affecting the shipyard industry of the United States, either directly or indirectly;

(c) to improve conditions under which the operations of the industry are carried on;

(d) to conserve and develop the industry as an essential element of national sea power;

(e) to promote the development and maintenance of an adequate mobilization potential of privately-owned shipbuilding, shiprepairing and allied industry facilities as well as skilled personnel for availability in time of national emergency;

(f) to preserve a balanced workforce and to promote employment opportunities for disadvantaged citizens;

(g) to inform the public of the role of shipbuilding and shiprepairing in terms of impact on the national economy and in terms of technological progress;

(h) to promote the interests of the industry through the conduct of usual and lawful trade association activities;

(i) to establish and maintain active cooperation by shipbuilders, shiprepairers, and allied industries with such other persons, groups, corporations, and associations as may have a joint interest in the attainment of these purposes;

(j) to provide a forum for the discussion of common problems affecting shipbuilding and shiprepairing in the United States; and

(k) to afford a means of cooperation with the government in matters of national concern.

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